

**RHODE ISLAND WATER RESOURCES BOARD
PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2000**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
ONE CAPITOL HILL
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
FAX #: (401) 222-3973

Rhode Island Water Resources Board
PERFORMANCE AUDIT
Fiscal Year Ended June 30, 2000

EXECUTIVE SUMMARY

The prior audit report for the Rhode Island Water Resources Board, issued for the fiscal year ended June 30, 1997 by the Bureau of Audits, cited 10 recommendations of which 8 have been implemented or partially implemented.

Based on our audit for the fiscal year ended June 30, 2000, we determined that the Rhode Island Water Resources Board needs to devote additional resources to complete initial audits of water suppliers to ensure all water quality protection surcharge payments have been properly calculated and remitted to the state.

Management needs to properly report account receivables in accordance with Section A-16 of the Department of Administration's Procedural Handbook.

RHODE ISLAND WATER RESOURCES BOARD
PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2000

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
TRANSMITTAL LETTER	1
INTRODUCTION	
Objectives, Scope, and Methodology	2
Background	3
Organizational Chart	4
NOTEWORTHY ACCOMPLISHMENTS	5
STATUS OF PRIOR AUDIT RECOMMENDATIONS	6
FINDINGS AND RECOMMENDATIONS	
Monitoring of Suppliers	8
Accounts Receivable	9
Interest and Penalty Collection on Leases	10
MANAGEMENT'S RESPONSE TO AUDIT FINDINGS AND RECOMMENDATIONS	11



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
FAX #: (401) 222-3973

May 29, 2001

Mr. M. Paul Sams, General Manager
Rhode Island Water Resources Board
100 North Main Street
Providence, RI 02906

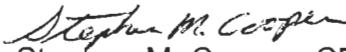
Dear Mr. Sams:

We have completed our audit of the Rhode Island Water Resources Board for the fiscal year ended June 30, 2000. Our audit was conducted in accordance with Sections 35-7-3 and 35-7-4 of the R.I. General Laws.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Management's responses to our audit recommendations have also been included in our report.

In accordance with Section 35-7-4 of the R.I. General Laws, we will review the status of the Rhode Island Water Resources Board corrective action plan within 6 months from the date of issue of this report.

Sincerely,


Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pb

RHODE ISLAND WATER RESOURCES BOARD
PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2000

INTRODUCTION

Objectives, Scope, and Methodology

We conducted a performance audit of the Rhode Island Water Resources Board for the fiscal year ended June 30, 2000. Our objectives were to evaluate the adequacy and effectiveness of managerial controls, the economy of resources, and compliance with significant laws and regulations applicable to the program. Our audit was made in accordance with the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

To accomplish our objectives, we reviewed the operations of the program to ascertain whether the results were consistent with the goals of the program and were carried out as planned. We also reviewed the reliability and integrity of financial and operating information. We interviewed personnel, and performed tests of the accounting records and all auditing procedures as we considered necessary in the circumstances.

The findings and recommendations included herein have been discussed with management and we considered their comments in the preparation of our report. Section 35-7-4 (c) of the R.I. General Laws requires the auditee to respond in writing within 60 days to all recommendations made in the report. Management's response to our audit findings and recommendations were submitted on May 16, 2001 and are included in our report.

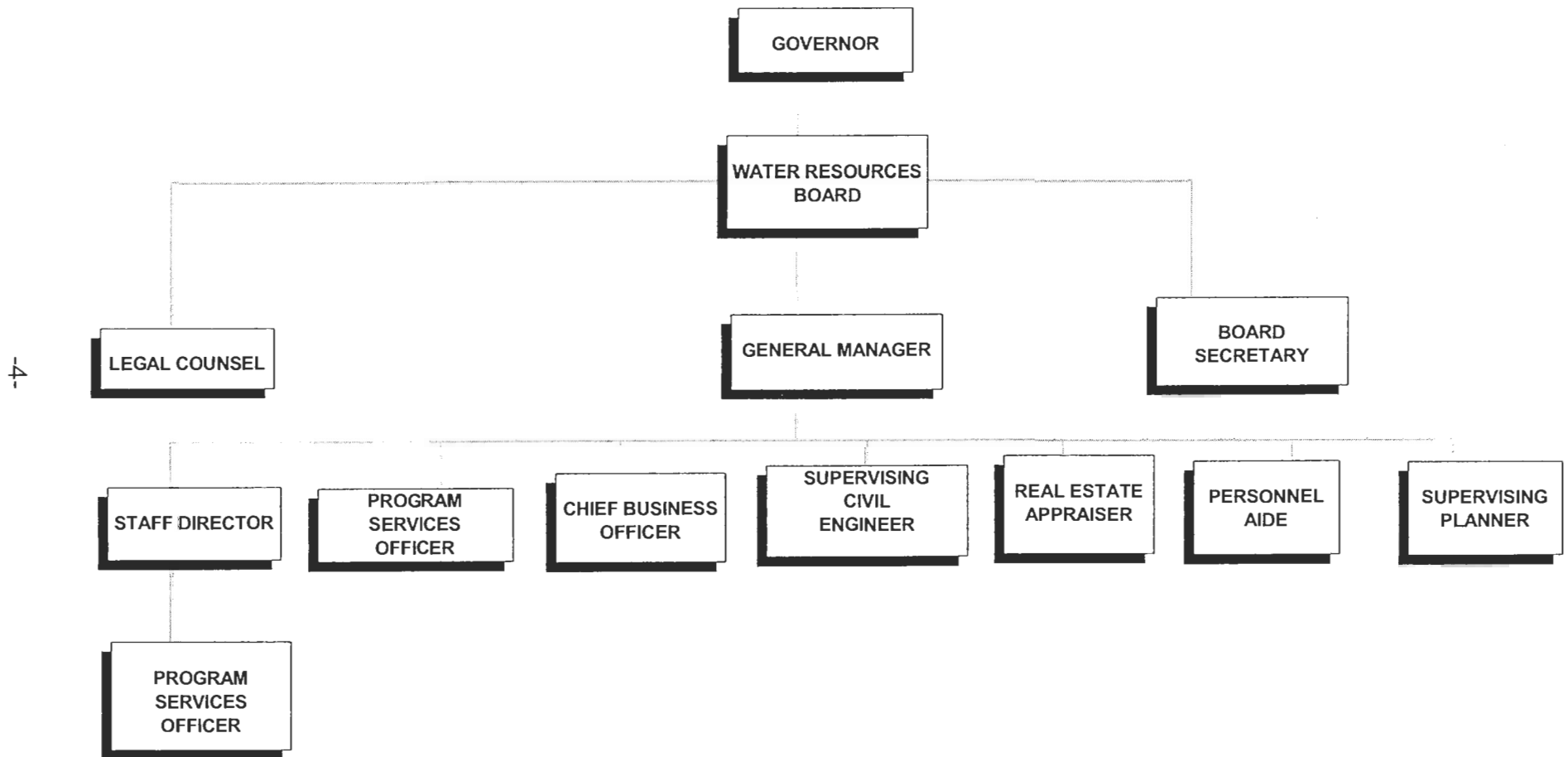
Background

Chapter 46-15 of the Rhode Island General Laws (RIGL) establishes the Rhode Island Water Resources Board (RIWRB). The RIWRB is a water supply development and regulatory agency which promotes the planning, development, and conservation of water supplies to ensure that sufficient water resources are available for present and future generations of Rhode Islanders. The Board may additionally acquire sites, dams, water rights, rights of way, easements, and other property for reservoirs, groundwater wells, well sights, pumping stations, and filtration plants for the treatment and distribution of water, as well as the construction of water systems.

In the mid 1960's during the Rhode Island drought of record, 8,600 acres of the Big River area were acquired by eminent domain by the state for the Big River Reservoir Water Supply Project. This project has been put on indefinite hold due to opposition from the U.S. Environmental Protection Agency and the U.S. Army Corps of Engineers. In 1993 the General Assembly passed legislation which designated the 8,600 acres at Big River as "Open Space." The Open Space legislation as amended in 1999 allows for the development of wells and well sites together with any infrastructure necessary for the treatment, transmission, storage, and distribution of drinking water that the Board determines as appropriate.

Approximately 200 residences and businesses were acquired during the condemnation process period. Today there are some 49 dwellings and 3 commercial properties that remain in the area and are under the management of the RIWRB.

RHODE ISLAND WATER RESOURCES BOARD
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2000



RHODE ISLAND WATER RESOURCES BOARD
PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2000

NOTEWORTHY ACCOMPLISHMENTS

The Rhode Island Water Resources Board has made many noteworthy reforms and initiatives since our last review including:

- The responsibilities of the Department of Environmental Management Water Supply Plans and the duties of its staff of 8 FTE's were assumed by the Rhode Island Water Resources Board with no increase in the Board's staff. This resulted in a savings of \$2.2 million per year. The Board developed and implemented Water System Supply Management Plans.
- Big River Management Area Water Study planning with US Geological Survey to drill well heads and place water piping to bring 10 million gallons of water per day from the Management Area. Net water sales income of \$2 million per year to the General Fund.
- Initiated statewide supplemental water study to determine all sources of water available for future potable, safe drinking water.
- Bristol County Water Authority, East Bay Pipeline, and Emergency Interconnection completed to bring Scituate Reservoir water to Bristol, Barrington, and Warren.
- Initiated the Bristol County Water Authority Study Shad Factory Pipeline and Treatment Facility cost assessment.

RHODE ISLAND WATER RESOURCES BOARD
PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2000

STATUS OF PRIOR AUDIT RECOMMENDATIONS

The following audit recommendations were identified in the report prepared by the Bureau of Audits for the period ended June 30, 1997.

Financial Control Procedures

1. The RIWRB should develop and promulgate administrative and accounting policies and procedures.

Implemented.

2. Consider implementing a general ledger for recording financial transactions and reconciling to financial statements presented by the State Controller.

Implemented.

3. Restrictively endorse receipts received by check.

Implemented.

Accounts Receivable

4. Lease payments and surcharges should be reported, monitored, and reconciled to the State Controller's records in accordance with Section A-16 of the Department of Administration's Procedural Handbook.

Partially implemented. See current year recommendation No.2.

Monitoring of Suppliers

5. RIWRB should develop policies and procedures for monitoring the accuracy of reports submitted by suppliers.

Partially implemented. See current year recommendation No. 1.

Fiscal Closing Procedures

6. Submit Reports of Accounts Payable (Form A-16) in accordance with fiscal closing procedures delineated in Section A-41 of the Department of Administration's Procedural Handbook.

Not applicable. RIWRB is under the \$50,000 threshold established by the Office of Accounts and Controls.

Purchasing

7. Ensure compliance with state procurement requirements as they apply to competitive bids, independent contractor, and minority business enterprises.

Implemented.

Equipment Inventory Records

8. A perpetual inventory should be maintained and reconciled to the annual physical inventory.

Implemented.

Operations Manual

9. An in-house operating manual should be developed and published to supplement the Department of Administration's Procedural Handbook.

Implemented.

Time and Effort Reports

10. Develop daily/weekly time and effort reports that include an employee's signature.

Implemented.

RHODE ISLAND WATER RESOURCES BOARD
PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2000

FINDINGS AND RECOMMENDATIONS

Monitoring of Suppliers

In an effort to ensure the protection of water quality, the legislature enacted the Public Drinking Water Protection Act, RIGL 46-15.3. In accordance with this statute, a surcharge of one and one-third cent (\$0.01333) is chargeable on all billings for water sales by suppliers. The suppliers of public drinking water are defined as any city, town, district, or other municipal, quasi-municipal, or public or private corporation or company engaged in the sale of potable water. Currently there are 30 suppliers in the state. Each supplier reports the gallons sold, computes the surcharge, and remits a check to the Rhode Island Resources Board (RIWRB) based on their individual billing cycles.

RIWRB management has implemented steps to verify the accuracy of water surcharge payments by conducting audits on various suppliers. RIWRB records indicate that 9 audits have been conducted -- 3 by RIWRB staff and 6 by an independent CPA firm; and 1 audit is in process by the RIWRB staff. The audits performed by RIWRB staff have resulted in billings of \$219,970; audits conducted by the independent CPA firm have generated billings of \$1,003,885; and overpayments from suppliers amounted to \$82,714. The net effect of the audits has been the generation of \$1,141,141 payable to the State's General Fund.

An audit schedule is not in place for the remaining 20 water suppliers. The monetary effects of improperly reported water surcharge fees cannot be determined until these suppliers are audited. While the RIWRB has attempted to ensure that suppliers have properly reported and remitted all money due to the state, additional effort needs to be made to conduct the initial audits.

Recommendation

1. The RIWRB needs to implement an audit schedule to complete the initial audits of water suppliers. Once all suppliers have been audited a three-year rotating schedule should be developed and implemented.

Management's Response

Accepted

Accounts Receivable

The Department of Administration Office of Accounts and Control has promulgated procedures for the reporting and collecting of accounts receivable. These procedures are the State's method of maintaining central control accounts for accounts receivable and ensuring that various departments and agencies have a collection procedure in place to ensure money due to the state is received.

The RIWRB has accounts receivable that are generated from the lease agreements on property located at Big River Management Area and assessments generated from auditing individual water supply facilities. Under Section A-16 of the Department of Administration's, Procedural Handbook these receivables are required to be submitted on Form A-42: "Report of Billings Made by State Agencies" to the Office of Accounts and Control. The RIWRB has not implemented Section A-16 and reported billings on Form A-42. The RIWRB does maintain subsidiary ledger accounts for leases and audit billings. However, central control accounts have not been established with the Office of Accounts and Control and receivables are not reported in accordance with the requirements of this section.

Recommendation

2. Leases and audit billings should be reported, and reconciled to the State Controller's records in accordance with Section A-16 of the Department of Administration's Procedural Handbook.

Management's Response

Accepted

Interest and Penalty Collection on Leases

The RIWRB is responsible for the property acquired by eminent domain by the state for the Big River Reservoir Water Supply Project. Today there are 49 single-family homes and 3 commercial properties that remain in the Big River Management Area under the control of the RIWRB.

These properties are leased by the RIWRB. Leases run from the first of October to the 30th of the following September. Payments are to be made in equal monthly installments and are to be paid in advance on the first day of the leasehold month. Additional language in the lease agreement states that "in the event that Tenant shall fail to make any payments of rent or other moneys due hereunder on or before the due date thereof, Tenant shall forthwith upon demand pay to Landlord interest, at the rate of twelve (12%) per annum, and all sums in arrears; and shall pay the sum of Ten (\$10) Dollars as a late charge penalty for each five day increment beyond the due date."

The RIWRB does not assess and collect interest and penalty as set forth in the terms of the lease. A review of 522 payments indicated that 345 were not filed timely. Approximately 66 percent of the payments were not paid according to the terms of the lease agreements, and if the terms of the lease were enforced an additional \$18,371.29 in revenue would have been generated.

Recommendation

3. Assess late filing penalties and interest as set forth in the terms of the lease agreement or amend the terms of the lease.

Management's Response

Accepted

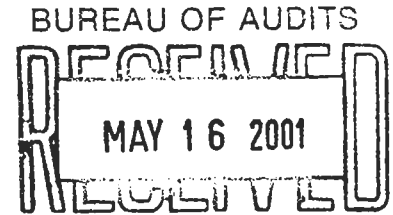


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

WATER RESOURCES BOARD
100 North Main Street, 5th Floor
Providence RI 02903
(401) 222-2217; FAX (401) 222-4707
www.wrb.state.ri.us

April 19, 2001

Mr. Stephen M. Cooper, Chief
Bureau of Audits
Department of Administration
One Capitol Hill
Providence, RI 02908-5889



Dear Mr. Cooper:

RE: RI Water Resources Board Performance Audit Fiscal Year Ended June 30, 2000

In accordance with Rhode Island General Law § 35-7-4 (c) we are submitting our response to the Performance Audit of Fiscal Year 2000. The Water Resources Board contact person is the undersigned, M. Paul Sams, tel. 222-2217; fax 222-4707.

The Water Resources Board members appreciate the noteworthy accomplishments of the Board reflected in the audit report. The professionalism of your staff, Shirley Egan and Stephen Robbins in the accomplishment of this report was noted and appreciated.

The following is a summary of Board responses to your recommendations:

Recommendation #1 The RIWRB needs to implement an audit schedule to complete the initial audits of water suppliers. Once all suppliers have been audited, a three-year, rotating schedule should be developed and implemented.

Response The RIWRB will implement an audit schedule. Additional funds have been requested to contract out some of the audits in order to meet the schedule deadlines.

Recommendation #2 Leases and audit billings should be reported and reconciled to the State Controller's records in accordance with Section A-16 of the Department of Administration's Procedural Handbook.

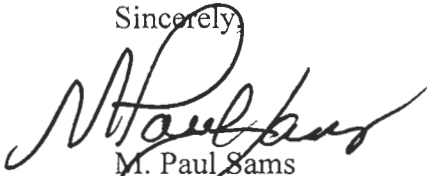
Response The RIWRB has completed the Form A-42 for the assessments generated from auditing individual water supply facilities. We will prepare the Form A-42 on accounts receivable that are generated from the lease agreements on property located at the Big River Management Area.

Recommendation #3 Assess late filing penalties and interest as set forth in the terms of the lease agreement or amend the terms of the lease.

Response The RIWRB will amend the terms of the lease agreements to reflect the policy that is in force on the collections. The exact amended agreement is being coordinated with the Board Legal Counsel.

Again, I want to express our appreciation for the thorough and complete examination and the professionalism of your staff.

Sincerely,



M. Paul Sams
General Manager

Cc: Robert Carl, Jr., Ph.D., Director of Administration
Stephen P. McAllister, CPA, Exec. Director/State Budget Officer
Lawrence C. Franklin, Jr., CPA, State Controller
Ernest A. Almonte, CPA, Auditor General
Tom Evans, State Librarian
Honorable Antonio J. Pires, Chairperson, House Finance Committee
Honorable Frank T. Caprio, Chairperson, Senate Finance Committee

S:\letters\administration\bureau of audits\cooper 16april01.doc